

# ALLEN COUNTY SCHOOL DISTRICT

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**GOODMAN & COMPANY, P.S.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
10357 LINN STATION ROAD  
LOUISVILLE, KENTUCKY 40223**

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Allen County School District  
Scottsville, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Allen County School District as of and for the year ended June 30, 2005, which collectively comprises the District's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I of the Independent Auditor's Contract – General Audit Requirements, Appendix II of the Independent Auditor's Contract - State Audit Requirements, and Appendix III of the Independent Auditor's Contract – Electronic Submission. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report date October 31, 2005, on our consideration of the Allen County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 36 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allen County School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Allen County School District. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards have been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

GOODMAN & COMPANY, P.S.C.  
Certified Public Accountants  
October 31, 2005

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2005**

As management of the Allen County School District (District), we offer readers of the District’s financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

**FINANCIAL HIGHLIGHTS**

- The beginning cash balance for the District was \$10.6 Million.
- A concerted effort was focused on purchasing in the areas of supplies, food, and travel resulting in several economies due to changed management strategies. The District utilizes multi-district cooperative bidding through the Green River Regional Educational Cooperative, Kentucky Educational Development Corporation, as well as, taking advantage of state and federal bidding opportunities for purchasing of supplies and food.
- State law requires districts to update a priority list of construction and renovation needs, called a local facilities plan, every four years. The document guides the allocation of School Facilities Construction Commission dollars.
- An effort to centralize our schools has provided educational benefits in addition to good physical management. We have a campus of approximately 200 acres of which there is still land available for future construction to meet our long-range educational needs. For many years we have elected to divide our local revenue equally between the general fund and the building fund. (Fifty cents of each dollar of local revenue goes into the general fund and fifty cents into the building fund). Our motor vehicle tax levy is also split 50/50. We have no occupational, utility or excise taxes. Allen County is very proud of our facilities and our ability to maintain them; nevertheless, our main purpose is educating kids and providing quality instructional resources and staff which we are able to do with our general fund dollars.
- During the 2005 General Assembly, the legislature voted to equalize facility funding for districts that have committed a ten-cent equivalent tax for facilities, or have debt service of at least a ten-cent equivalent, and have received no other equalization except FSPK. What this does for Allen County is that it equalizes another five cents. Equalizing five more cents will generate an additional \$469,804 annually for Allen County’s building fund for twenty years. The additional revenue will be used to renovate the High School, Technical Center and Middle School.
- Bonds are issued as the district renovates facilities consistent with a long-range facilities plan that is established with community input and in keeping with Kentucky Department of Education (KDE) stringent compliance regulations. With the refinancing of Allen County Primary Center in June 1, 2005 the district realized a savings of \$364,000 over a 13-year period.

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2005**

**FINANCIAL HIGHLIGHTS CONTINUED**

- Construction was completed on the Allen County Intermediate Center (grades 4-6) that replaced White Plains Elementary. Construction continued on the new central office building. This is a \$2.3 million project with completion anticipated in late fall 2005. With the completion of these two buildings, our entire school facility is now located on one campus with interconnecting roadways, which will enable all buses to load and unload without the necessity of being on the public highway.
- Allen County Intermediate Center has been recognized state-wide for the innovative use of technology in the classroom. Each room is equipped with state-of-the-art technology that includes: Interactive White Boards (ActivBoard), projection systems, DVD/VCR, ceiling speaker array, document camera and sound amplifiers. Additionally, the building provides media retrieval through the Rauland Telecenter IP System. This includes a bank of DVD/VCR's to transmit building wide, 400GB of storage for digital media, digitizing equipment, and camera equipment to provide in-house video news shows.
- Continuing with technology upgrades, the district plans to replace existing multi-mode fiber-optic cabling between all buildings with single-mode fiber-optic cabling. This will allow faster through-put for internet, email, and district WAN traffic, as well as, allowing the Allen County Intermediate Center and the new central office to be connected to the existing campus wide phone system which the current system is incapable of extending these distances.
- One of our oldest buildings, Allen County Community Center, required re-roofing this year at a cost to the general fund of \$130,000.
- The District remains committed to increasing staff salaries. We must be able to compete with surrounding school districts. Within the Green River Regional Education Cooperative (28 districts), Allen County ranks no lower than 10<sup>th</sup> and most rank from 1<sup>st</sup> to 5<sup>th</sup>. Certified and classified employees were given 3% pay raise for fiscal year 2005.
- The General Fund had \$15.7 million in revenue, which primarily consisted of the state program SEEK (Support Educational Excellence in Kentucky), and local property and motor vehicle taxes. Excluding inter-fund transfers, there was \$16.7 million in General Fund expenditures.
- The board continues its obligation to escrow depreciation revenue as received from the state to provide funding to replace school buses as they go off the depreciation schedule. Four buses were purchased this year at a cost of \$317,036.
- A pavilion was erected on the Allen County School Campus provided from grants and donations. This pavilion allows Mr. Gordon Branham, a community volunteer, to bring his horses to our campus for our special needs students to ride. This activity, know as hippotherapy, improves motor control, cognition, social/emotional and communication for these students.

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED JUNE 30, 2005**

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 11-12 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our day care and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13-20 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-35 of this report.



**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$21.1 million as of June 30, 2005

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

**NET ASSETS**

A summary of the net assets for 2005 and 2004 are as follows:

	2005			2004		
	Governmental Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Current Assets	\$ 6,336,966	\$ 737,537	\$ 7,074,503	\$ 12,355,651	\$ 673,515	\$ 13,029,166
Noncurrent Assets	<u>31,251,032</u>	<u>477,838</u>	<u>31,728,870</u>	<u>26,588,620</u>	<u>229,798</u>	<u>26,818,418</u>
Total Assets	\$ 37,587,998	\$ 1,215,375	\$ 38,803,373	\$ 38,944,271	\$ 903,313	\$ 39,847,584
Current Liabilities	\$ 2,226,394	\$ 4,178	\$ 2,230,572	\$ 2,193,133	\$ 2,980	\$ 2,196,113
Noncurrent Liabilities	<u>15,478,519</u>	<u>-</u>	<u>15,478,519</u>	<u>16,187,300</u>	<u>-</u>	<u>16,187,300</u>
Total Liabilities	\$ 17,704,913	\$ 4,178	\$ 17,709,091	\$ 18,380,433	\$ 2,980	\$ 18,383,413
Net Assets						
Investment in capital assets (net of debt)	\$ 14,970,684	\$ 477,838	\$ 15,448,522	\$ 9,546,660	\$ 229,798	\$ 9,776,458
Restricted	1,638,498	-	1,638,498	6,750,220	-	6,750,220
Unreserved Fund Balance	<u>3,273,903</u>	<u>733,359</u>	<u>4,007,262</u>	<u>4,266,958</u>	<u>670,535</u>	<u>4,937,493</u>
Total Net Assets	<u>\$ 19,883,085</u>	<u>\$ 1,211,197</u>	<u>\$ 21,094,282</u>	<u>\$ 20,563,838</u>	<u>\$ 900,333</u>	<u>\$ 21,464,171</u>

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

**NET ASSETS CON'T**

**Comments on Budget Comparisons**

- The District's total revenues for the fiscal year ended June 30, 2005, net of interfund transfers, were \$22.7 million.
- General fund revenue was \$15.7 million or \$2.9 million higher than budget primarily due to state on-behalf payments.
- The total cost of all programs and services for the General Fund was \$16.7 million or \$1.2 million lower than budget.

The following table presents a summary of revenue and expense for the fiscal year ended June 30, 2005 and June 30, 2004.

	2005			2004		
	Government Activities	Business Type Activities	Total	Governmental Activities	Business Type Activities	Total
Program Revenues:						
Charges for services	\$ 10,360	\$ 619,849	\$ 630,209	\$ 7,950	\$ 620,656	\$ 628,606
Operating grants	2,836,392	898,572	3,734,964	3,544,434	706,549	4,250,983
General revenues:						
Taxes	3,463,692	-	3,463,692	3,175,224	-	3,175,224
State aid formula grant	14,529,617	-	14,529,617	13,014,931	-	13,014,931
Investment earnings	268,185	17,488	285,673	236,877	6,215	243,092
Gain on sale of assets	1,785	-	1,785	33,577	-	33,577
Transfers	(292,027)	292,027	-	-	-	-
Local revenues	<u>78,857</u>	<u>-</u>	<u>78,857</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	\$ 20,896,861	\$ 1,827,936	\$ 22,724,797	\$ 20,012,993	\$ 1,333,420	\$ 21,346,413
Program Expenses:						
Instruction	\$ 14,112,644	\$ -	\$ 14,112,644	\$ 12,092,815	\$ -	\$ 12,092,815
Student support	620,297	-	620,297	490,231	-	490,231
Instruction staff	854,712	-	854,712	705,878	-	705,878
District administration	418,084	-	418,084	499,802	-	499,802
School administration	977,157	-	977,157	888,737	-	888,737
Business support	301,682	-	301,682	284,579	-	284,579
Plant operations	1,780,421	-	1,780,421	1,623,967	-	1,623,967
Student transportation	1,516,260	-	1,516,260	1,296,039	-	1,296,039
Enterprise operations	36,171	-	36,171	33,181	-	33,181
Community support	273,098	-	273,098	227,952	-	227,952
Building renovations	135,721	-	135,721	-	-	-
Interest on long-term debt	551,367	-	551,367	705,432	-	705,432
Food service	-	1,416,018	1,416,018	-	1,218,641	1,218,641
Day care	-	<u>101,054</u>	<u>101,054</u>	-	<u>105,109</u>	<u>105,109</u>
Total Expenses	<u>\$ 21,577,614</u>	<u>\$ 1,517,072</u>	<u>\$ 23,094,686</u>	<u>\$ 18,848,613</u>	<u>\$ 1,323,750</u>	<u>\$ 20,172,363</u>
Net Increase in Assets	<u>\$ (680,753)</u>	<u>\$ 310,864</u>	<u>\$ (369,889)</u>	<u>\$ 1,164,380</u>	<u>\$ 9,670</u>	<u>\$ 1,174,050</u>

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

**Governmental Activities**

Instruction comprises 65% of governmental program expenses in 2005 versus 64% in 2004. Support services expenses make up 32% of government expenses in 2005 compared to 32% for the prior year. The remaining expense for interest accounts for 3% of total government expense for 2005 versus 4% for the prior year.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows for government activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

	<u>2005 Governmental Activities</u>		<u>2004 Governmental Activities</u>	
	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instruction	\$ 14,112,644	\$ 11,755,655	\$12,092,815	\$ 9,026,762
Support services	6,913,603	6,423,840	6,050,366	5,564,035
Interest on long-term debt	<u>551,367</u>	<u>551,367</u>	<u>705,432</u>	<u>705,432</u>
Total Expenses	<u>\$21,577,614</u>	<u>\$18,730,862</u>	<u>\$18,848,613</u>	<u>\$15,296,229</u>

**Business-Type Activities**

The business-type activities include the food service and day care operations. These programs had total revenues of \$1,827,936 and expenses of \$1,517,072 for fiscal year 2005. Of the revenues, \$619,849 was charges for services, \$898,572 was from State and Federal grants, \$17,488 was from investment earnings and \$292,027 in transfers. Business activities receive no support from tax revenues.

**Capital Assets**

At the end of fiscal year 2005 the School District had \$31.7 million invested in land, buildings, equipment, and construction in progress. The following table shows fiscal year 2005 balances:

**Capital Assets at June 30, 2005  
(Net of Depreciation)**

	<u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Depreciation</u>	<u>June 30, 2005</u>
Governmental Activities					
Land	\$ 1,156,007	\$ 16,178	\$ -	\$ -	\$ 1,172,185
Land improvements	758,821	-	-	(66,608)	692,213
Buildings	15,957,733	10,472,092	-	(629,750)	25,800,075
Technology	377,083	981,020	-	(242,135)	1,115,968
Vehicles	578,517	53,226	-	(130,589)	501,154
Equipment	319,079	43,482	-	(59,645)	302,916
Construction in progress	<u>7,441,380</u>	<u>-</u>	<u>(5,774,859)</u>	<u>-</u>	<u>1,666,521</u>
Total Governmental Activities	\$26,588,620	\$11,565,998	\$(5,774,859)	\$(1,128,727)	\$31,251,032
Business-Type Activities					
Technology	\$ 1,494	\$ 21,023	\$ -	\$ (14,907)	\$ 7,610
Equipment	<u>228,304</u>	<u>271,004</u>	<u>-</u>	<u>(29,080)</u>	<u>470,228</u>
Total Business-Type Activities	\$ 229,798	\$ 292,027	\$ -	\$ (43,987)	\$ 477,838
Total	<u>\$26,818,418</u>	<u>\$11,858,025</u>	<u>\$(5,774,859)</u>	<u>\$(1,172,714)</u>	<u>\$31,728,870</u>

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY  
MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

**BUDGETARY IMPLICATIONS**

In Kentucky the public school fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District’s overall budget. By law the budget must have a minimum 2% contingency. The District adopted a budget with \$1.6 million in contingency (11%).

The beginning General Fund cash balance for beginning the 2005 fiscal year is \$5.3 million. Significant Board action that impacts the finances included a 3% pay raise for all certified and classified employees and general fund matching dollars for other grants. The District currently participates in approximately 34 state and federal grants. The total budget for these grants is \$2.9 million. Applying for grant reimbursements and monitoring the grants is something the District must do constantly. While waiting for grants to be reimbursed, the District must maintain a significant cash balance in order to pay these expenses in advance.

Local property tax revenue makes up approximately 11% of the general fund revenue. Property taxes are levied annually usually in October on the assessed value for all real and personal property, as well as motor vehicles in the district as of January 1<sup>st</sup> of the prior year. However, this revenue is not received until the months of November – February which means that the general fund’s beginning balance is used to pay much of the first few months of expenditures. It is very important to have a substantial beginning balance to start the beginning of each year.

A 10-classroom addition to Allen County-Scottsville High School and renovations to the existing building of the high school, middle school and technical center are scheduled to begin during the 2005-2006 year. This will consist of the following phases with an estimated cost of \$10 million.

**All Phases**

<b>High School</b>	Full renovation & additions per facility plan
<b>Middle School</b>	Digital Projection System – 30 Classrooms
<b>Technical Center</b>	Partial renovation per facility plan

**Phase I**

**High School**

Addition of 6 science classrooms to replace existing science classrooms & labs and 4 lecture labs  
Replace gym HVAC  
Fire suppression riser & service plus full suppression of Phase I  
Additional parking, 50 spaces, plus restores existing paving

**Middle School**

Install Digital Projection Systems in 30 rooms to include Activboards, projector, tuner, document camera and accessories.

**Phase II & III**

**High School**

Retrofit two existing science labs into regular classrooms  
Extension of full fire suppression to entire building  
Continue renovation per facility plan

**ALLEN COUNTY SCHOOL DISTRICT – SCOTTSVILLE KENTUCKY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) CONTINUED**

**Middle School**

Continue renovation per facility plan

**Technical School**

Continue renovation per facility plan

Questions regarding this report should be directed to Larry W. Williams, Superintendent at (270) 237-3181 or by mail to 238 Bowling Green Road, Scottsville, KY 42164.

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

## **FUND FINANCIAL STATEMENTS**

## ALLEN COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2005

Total fund balance per fund financial statement	\$ 5,925,207
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Amounts reported for governmental activities in the statement of  
net assets are different because:

Capital assets are not reported in this fund financial statement because they are not current financial resources, but they are reported in the statement of net assets.	31,251,032
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Certain liabilities (such as bonds payable, the long-term portion of accrued sick leave, and accrued interest) are not reported in this fund financial statement because they are not due and payable, but they are presented in the statement of net assets.	<u>(17,293,154)</u>
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Net assets for governmental activities	<u>\$ 19,883,085</u>
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## ALLEN COUNTY SCHOOL DISTRICT

### RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the year ended June 30, 2005

Net change in total fund balances per fund financial statements	\$(6,102,857)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	4,073,567
Bond and capital lease payments are recognized as expenditures of current Financial resources in the fund financial statement but are reductions of liabilities in the statement of net assets.	1,090,000
Bond Interest Payments	145,089
Sick Leave	(96,432)
Bond Discount and Expense	105,507
All Other	<u>104,373</u>
Change in net assets of governmental activities	<u>\$ (680,753)</u>

## **ALLEN COUNTY SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Reporting Entity**

The Allen County Board of Education (Board), a five-member group, is the level of government, which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Allen County School District. The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Allen County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board also include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing Board. Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Allen County School District Finance Corporation – In July 1985, the Allen County, Kentucky, Board of Education resolved to authorize the establishment of the Allen County School District Finance Corporation (a non-profit, non-stock, public, and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The board members of the Allen County Board of Education also comprise the Corporation’s board of directors.

##### **Basis of Presentation**

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

## ALLEN COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segments or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

#### **I. Governmental Fund Types**

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 43. This is a major fund of the District.

**ALLEN COUNTY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

(C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).

1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the district's facility plan.
2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sale of bonds and other revenues to be used for authorized construction. The Construction Fund is a major fund.

(D) The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

**II. Proprietary Fund Types (Enterprise Fund)**

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Day Care Fund is used to account for day care activities provided by the School District.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)**

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds. There were no private purpose trust funds in Allen County for the fiscal year ended June 30, 2005.

## **ALLEN COUNTY SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

##### **Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of the fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

## ALLEN COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

#### NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

##### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2005, to finance the General Fund operations were \$.559 per \$100 valuation for real property, \$.559 per \$100 valuation for business personal property and \$.518 per \$100 valuation for motor vehicles.

##### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of, normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
General equipment	5-15 years

## **ALLEN COUNTY SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

##### **Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables”. These amounts are eliminated in the governmental and business-type activities columns of the statements of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

##### **Budgetary Process**

**Budgetary Basis of Accounting:** The District's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Per Board policy, only amendments that aggregate greater than \$50,000 require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

##### **Cash and Cash Equivalents**

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

##### **Inventories**

On government-wide financial statements inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method and the general fund uses the first-in, first-out method.

## **ALLEN COUNTY SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005**

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

##### **Prepaid Assets**

Payments made that will benefit periods beyond June 30, 2005 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

##### **Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

##### **Fund Balance Reserves**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for construction projects.

##### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

##### **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.



## ALLEN COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

#### **NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED**

##### **Contributions of Capital**

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

##### **Interfund Activity**

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

#### **NOTE B - ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

#### **NOTE C – CASH AND CASH EQUIVALENTS**

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities. At June 30, 2005, none of the District's bank balance including agency funds of \$8,407,580 was exposed to custodial credit risk.

#### **NOTE D – LONG-TERM OBLIGATIONS**

The amount shown in the accompanying financial statements as bond obligations represents the Board's future obligations to make payments relating to the bonds issued by the Allen County School District Finance Corporation.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>ISSUE</u>		
1997	\$ 8,440,000	5.44%
2003	8,100,000	9.94%
2003 R	2,190,000	1.85%
2004	1,320,000	4.14%
2005	<u>5,650,000</u>	3.48%
Total	<u>\$25,700,000</u>	

# ALLEN COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

### NOTE D – LONG-TERM OBLIGATIONS CONTINUED

The District, through the General Fund, (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Allen County Fiscal Court and the City of Scottsville to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has “participation agreements” with the Kentucky School Facilities Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The following table sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues.

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2005 for debt service (principal and interest) are as follows:

	ALLEN COUNTY		STATE		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
6/30/06	\$ 1,107,763	\$ 468,133	\$ 92,237	\$ 74,939	\$ 1,743,072
6/30/07	1,117,982	472,518	92,018	74,380	1,756,898
6/30/08	786,576	436,451	93,424	71,878	1,388,329
6/30/09	805,384	414,344	99,616	69,586	1,388,930
6/30/10	834,107	391,017	100,893	66,769	1,392,786
6/30/11-15	\$ 4,602,013	\$ 1,528,755	\$ 552,987	\$ 282,757	\$ 6,966,512
6/30/16-20	\$ 3,580,253	\$ 709,144	\$ 579,747	\$ 173,875	\$ 5,043,019
6/30/21-24	<u>\$ 1,700,911</u>	<u>\$ 142,257</u>	<u>\$ 469,089</u>	<u>\$ 50,456</u>	<u>\$ 2,362,713</u>
Grand Total	<u>\$14,534,989</u>	<u>\$ 4,562,619</u>	<u>\$ 2,080,011</u>	<u>\$ 864,640</u>	<u>\$ 22,042,259</u>

On May 25, 2005, the District issued \$5,650,000 in School Building Revenue Bonds with an average rate of 4.48% over 12 years. The School Construction Commission is participating 4% in the debt service of the bonds. The net proceeds were \$5,544,493, after the cost of issuance of \$54,630 and discount of \$50,877. The differences, reported in the accompanying government-wide statement of net assets as a deduction from bonds payable, is being charged to operations through the year 2024 using the effective-interest method. In addition, \$5,235,000 of the 1997 Series was retired.

## ALLEN COUNTY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

#### NOTE D – LONG-TERM OBLIGATIONS CONTINUED

##### **Accumulated Unpaid Sick Leave Benefits**

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District's past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The noncurrent portion of the liability is not reported.

Long-term liability for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Revenue bonds payable	\$17,290,000	\$ 5,650,000	\$ 6,325,000	\$16,615,000	\$ 1,200,000
Accrued sick leave	<u>314,430</u>	<u>126,703</u>	<u>30,271</u>	<u>410,862</u>	<u>35,500</u>
Governmental Activities:					
Long-term liabilities	<u>\$17,604,430</u>	<u>\$ 5,776,703</u>	<u>\$ 6,355,271</u>	<u>\$17,025,862</u>	<u>\$ 1,235,500</u>

The debt service fund is primarily responsible for paying the bond obligations through funding from the capital outlay and FSPK funds. The general fund is primarily responsible for paying accrued sick leave.

#### NOTE E – RETIREMENT PLANS

The Allen County Public Schools contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Funding Policy – Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The federal program for any salaries paid by that program pays the matching contributions.

## **ALLEN COUNTY SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005**

#### **NOTE E – RETIREMENT PLANS CONTINUED**

KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

The Allen County Public School District's total payroll for the year was \$13,359,135. The payroll for employees covered under KTRS was \$9,998,395 the year ended June 30, 2005 the Commonwealth contributed \$1,226,955 to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2005 were \$83,335, which represents those employees covered by federal programs.

#### **NOTE F - CONTINGENCIES**

The District receives funding from Federal, State and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfactions that the funds provided are being spent as intended and the grantors' intent to continue their programs.

#### **NOTE G- LITIGATION**

The District is subject to various other legal actions in various stages of litigation, the outcome of which is not determinable at this time. Management of the District and its legal counsel do not anticipate that there will be any material effect on the combined financial statements as a result of the cases presently in progress, except as described elsewhere in this report.

#### **NOTE H – INSURANCE AND RELATED ACTIVITIES**

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies that are retrospectively rated which include Workers' Compensation insurance.

#### **NOTE I – RISK MANAGEMENT**

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount.

## **ALLEN COUNTY SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005**

#### **NOTE I – RISK MANAGEMENT CONTINUED**

Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notices. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

# ALLEN COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

### NOTE J – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	<b>BALANCE JULY 1, 2004</b>	<b>ADDITIONS</b>	<b>DEDUCTIONS</b>	<b>BALANCE JUNE 30, 2005</b>
Governmental Activities:				
Land	\$ 1,156,007	\$ 16,178	\$ -	\$ 1,172,185
Land improvements	1,378,602	-	-	1,378,602
Buildings and building improvements	22,685,929	10,472,092	-	33,158,021
Technology equipment	1,612,172	981,020	-	2,593,192
Vehicles	2,304,239	53,226	-	2,357,465
General equipment	824,312	43,482	-	867,794
Construction	<u>7,441,380</u>	<u>-</u>	<u>(5,774,859)</u>	<u>1,666,521</u>
Totals at historical cost:	\$37,402,641	\$11,565,998	\$(5,774,859)	\$43,193,780
Less Accumulated Depreciation For:				
Land improvements	\$ 619,781	\$ 66,608	\$ -	\$ 686,389
Buildings and building improvements	6,728,196	629,750	-	7,357,946
Technology equipment	1,235,089	242,135	-	1,477,224
Vehicles	1,729,791	130,589	-	1,860,380
General equipment	501,164	59,645	-	560,809
Construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation:	<u>\$10,814,021</u>	<u>\$ 1,128,727</u>	<u>\$ -</u>	<u>\$11,942,748</u>
Governmental Activities Capital Net	<u>\$26,588,620</u>	<u>\$10,437,271</u>	<u>\$(5,774,859)</u>	<u>\$31,251,032</u>
Proprietary Activities:				
Land improvements	\$ -	\$ -	\$ -	\$ -
Buildings and building improvements	-	-	-	-
Technology equipment	6,366	21,023	-	27,389
Vehicles	17,000	-	-	17,000
General equipment	484,016	271,004	-	755,020
Construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals at historical cost:	\$ 507,382	\$ 292,027	\$ -	\$ 799,409
Less Accumulated Depreciation For:				
Land improvements	\$ -	\$ -	\$ -	\$ -
Buildings and building improvements	-	-	-	-
Technology equipment	4,872	14,907	-	19,779
Vehicles	17,000	-	-	17,000
General equipment	255,712	29,080	-	284,792
Construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total accumulated depreciation:	<u>\$ 277,584</u>	<u>\$ 43,987</u>	<u>\$ -</u>	<u>\$ 321,571</u>
Proprietary Activities Capital Net	<u>\$ 229,798</u>	<u>\$ 248,040</u>	<u>\$ -</u>	<u>\$ 477,838</u>

### DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:

Instructional	\$ 977,226
Student support services	480
Staff support services	7,861
District administration	8,179
School administration	3,692
Business support services	-
Plant operation & maintenance	4,611
Student transportation	122,108
Central Office	-
Community service operations	<u>4,570</u>
Total	<u>\$ 1,128,727</u>

# ALLEN COUNTY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2005

### NOTE K – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance or net assets. However, the following funds have operations that resulted in a current year deficit of revenues over expenditures resulting in a corresponding reduction of fund equity:

General Fund	\$ 927,746
Construction	5,197,152

### NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

### NOTE M - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Operating	General	Special Revenue	Transfer	\$ 37,510
Debt Service	SEEK	Debt Service	Bond Payment	272,630
Debt Service	FSPK	Debt Service	Bond Payment	1,348,033
Construction	FSPK	Construction	Transfer	650,000
Operating	FSPK	General Fund	Transfer	<u>116,929</u>
Sub-total				2,425,102
Capital Assets	Construction	Food Service	Transfer	<u>290,027</u>
				<u>\$ 2,715,129</u>

### NOTE N – CAPITAL LEASES

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2005:.

<u>Year Ending</u>	<u>Capital Lease Payable</u>
06/30/06	\$ 36,063
06/30/07	13,675
06/30/08	<u>9,134</u>
Total minimum lease payments	\$ 58,872
Less: Amount representing interest	<u>(6,183)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 52,689</u>

The net book value of the capital lease is \$ 59,426.

**ALLEN COUNTY SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2005**

**NOTE O – INTERFUND RECEIVABLE AND PAYABLES**

There were no interfund receivables and payables at June 30, 2005.

**NOTE P – ON-BEHALF PAYMENTS FOR FRINGE BENEFITS**

The government-wide financial statements include \$2,750,150 of on-behalf payments and fringe benefits paid by the state. \$1,523,195 is for health insurance, and \$1,226,955 is for pension benefits and the remainder is for other benefits and administrative fees.

**NOTE Q – BUDGETARY COMPARISONS**

Actual figures for the general fund, food service and day care include on-behalf payments of \$2.8 million which were assigned to the District's expenditures after the budget was prepared. Revenue from the state was raised by the same amount with no impact on fund equity.

**NOTE R - RECLASSIFICATIONS**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.



## **REQUIRED SUPPLEMENTARY INFORMATION**

## **SUPPLEMENTARY INFORMATION**

**HIGH SCHOOL**

## **SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

## **ALLEN COUNTY SCHOOL DISTRICT**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2005**

#### **NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Allen County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

#### **NOTE B – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. At June 30, 2005, the District received commodities totaling \$82,293 for the year ending June 30, 2005.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



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**Section II – Financial Statement of Findings**

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No matters were reported.

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**Section III – Federal Award Findings and Questioned Costs**

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No matters were reported.



**ALLEN COUNTY SCHOOL DISTRICT**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2005**

There were no prior year audit findings.

**INDEPENDENT AUDITOR'S REPORT  
ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

**GOODMAN & COMPANY, P.S.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
10357 LINN STATION ROAD  
LOUISVILLE, KENTUCKY 40223**

Members of the Board of Education  
Allen County School District  
Scottsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Allen County School District as of and for the year ended June 30, 2005, which collectively comprise Allen County School District's basic financial statements and have issued our report thereon dated October 31, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II, and III of the Independent Auditor's Contract.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Allen County School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Allen County School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Allen County School District in a separate letter dated October 31, 2005.

This report is intended solely for the information and use of the audit committee, management, Kentucky State Committee for School District Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.  
Certified Public Accountants  
October 31, 2005

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

**GOODMAN & COMPANY, P.S.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
10357 LINN STATION ROAD  
LOUISVILLE, KENTUCKY 40223**

Members of the Board of Education  
Allen County School District  
Scottsville, Kentucky

**Compliance**

We have audited the compliance of the Allen County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Allen County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Allen County School District's management. Our responsibility is to express an opinion on Allen County School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allen County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allen County School District's compliance with those requirements.

In our opinion, Allen County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of Allen County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allen County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Members of the Board of Education  
Allen County School District

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is reportable a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of audit committee, management, Kentucky State Committee for School District Audits, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.  
Certified Public Accountants  
October 31, 2005

## **COMMUNICATION WITH DISTRICT BOARD**





**GOODMAN & COMPANY, P.S.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
10357 LINN STATION ROAD  
LOUISVILLE, KENTUCKY 40223**

State Committee for School District Audits  
Members of the Board of Education  
Allen County Board of Education  
Scottsville, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Allen County School District as and for the year ended June 30, 2005, which collectively comprises the District's basic financial statements, as listed in the accompany table of contents, and have issued our report thereon dated October 31, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our responsibility under auditing standards generally accepted in the United States of America, the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendices I, II and III of the *Independent Auditors' Contract*.**

As stated in our engagement letter dated August 1, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our audit procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the District are described in Note A to the financial statements. We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

**Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the District's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, in our judgment, do not indicate matters that could have a significant effect on the District's financial reporting process. In addition, management has made all adjustments proposed by us.

**Disagreements With Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. There have been no disagreements during the course of our audit.

**Consultations With Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditor. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

This report is intended solely for the use of the members of the Board of Education, Kentucky State Committee for School District Audits and management and is not intended and should not be used by anyone other than these specified parties.

GOODMAN & COMPANY, P.S.C.  
Certified Public Accountants  
October 31, 2005

## **MANAGEMENT LETTER**



**GOODMAN & COMPANY, P.S.C.  
CERTIFIED PUBLIC ACCOUNTANTS  
10357 LINN STATION ROAD  
LOUISVILLE, KENTUCKY 40223**

Members of the Board of Education  
Allen County School District  
Scottsville, Kentucky

In planning and performing our audit of the basic financial statements of Allen County School District for the year ended June 30, 2005, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of some matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. A separate report dated October 31, 2005, contains our report on the District's internal control structure. This letter does not affect our report dated October 31, 2005, on the financial statements of the Allen County School District.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and their implementation is currently being reviewed. We will be pleased to discuss them in the further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

GOODMAN & COMPANY, P.S.C.  
Certified Public Accountants  
October 31, 2005

## **MANAGEMENT LETTER POINTS**

**MANAGEMENT LETTER POINTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Prior Year Audit Management Letter Points

None

Current Year Management Letter Points

1. Fixed Asset System. Management needs to consult with the Department of Education staff to resolve reporting issues with its fixed assets system. For example, the beginning balances for the current year did not equal the ending balance of the prior year in its reports.
2. Activity Center Bank Statements. Management needs to monitor activity centers to confirm that banks are providing copies of the front and back of cancelled checks as confirmation of endorsements is a part of the audit process. The Primary Center, for example, only had copies of the front of cancelled checks.
3. Separation of Duties in Paying Billing and Preparing Bank Reconciliations. While testing suggested the activity centers are complying with the procedures as required by "Accounting Procedures for Kentucky Activity Funds" as it relates to the separation of duties, it is suggested this be monitored during the upcoming year to insure continued compliance as personnel change and since it has been an issue in the prior years.

Management Response

1. In regard to item #1 above we recognize the problem and are working with the Department of Education to resolve the problem.
2. In regard to item #2 above we will monitor activity center accounts to confirm that the banks are providing copies of the front and back of cancelled checks. We will also contact the banks to make sure they understand that all checking accounts of the Board of Education must have copies of the front and back of cancelled checks.
3. In regard to item #3 above we require all new employees involved in paying, billing, and preparing bank reconciliations to attend Red Book Training. We further require personnel in this area to attend training periodically.



